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# **FDIC's National Telephone Conference**

***“What I need to know to calculate FDIC deposit insurance coverage!”***

## **Session Dates**

**September 17, 2008**

**October 14, 2008**

**September 26, 2008**

**October 22, 2008**

**September 30, 2008**

**October 28, 2008**

**October 10, 2008**

**November 4, 2008**

# ***“What I need to know to calculate FDIC deposit insurance coverage!”***

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## **Today’s Speaker**

# Outline

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Part 1 – Fundamentals - What does FDIC insure?

Part 2 – What are the different options to maximize my client's deposit insurance coverage?

## Deposit Insurance Ownership Categories

- Individuals
- Businesses/Organizations
- Government Entities/Public Units

Part 3 - Requirements for Eight Insurance Categories

Part 4 - Additional Fundamentals

Part 5 - Your Questions

## What is insured by FDIC - Deposits Only!

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**“FDIC Insures deposits only - Types of deposits include”:**

- Checking Accounts
- NOW Accounts
- Savings Accounts
- Certificates of Deposit (CDs)
- Money Market Deposit Accounts (MMDA)

## What is not insured by FDIC - Non-Deposit Products

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*“These products are not FDIC insured even if purchased through an FDIC insured bank!”*

- Stocks, Bonds, Municipal Bonds and Other Securities
- Mutual Funds (money market mutual funds and stock, bond, or other security mutual funds)
- Annuities
- Insurance Products (automobile and life insurance)
- U.S. Treasury Bills, Bonds or Notes
- Safe Deposit Box Contents

## The Basic Coverage Limits

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### Basic Coverage for all depositors:

- Up to \$100,000 per depositor including principal and accrued interest
  - Additional coverage (e.g. POD deposits) is possible if specific requirements are met
- Since April, 2006, up to \$250,000 for “*Certain Retirement Accounts*”

### Common misunderstanding:

“Can I deposit funds in different branches of the same bank?”

or

“How about different branches of the same bank that is located in another state?”

Answer: “Funds placed in separately chartered banks are separately insured – not the branch offices of a bank with the same charter number!”

## Calculating the deposit insurance limit

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**You must add Principal and any Accrued Interest Together**

<b>Jane Smith</b>	<b>Balance</b>
Principal	\$ 98,000
Interest	\$ 3,000
<b>Total</b>	<b>\$ 101,000</b>
<b>Insured</b>	<b>\$ 100,000</b>
<b>Uninsured</b>	<b>\$ 1,000</b>

## **Your clients want answers to the questions:**

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**“How much can I be insured for by the FDIC?”**

**“What are the different ways a depositor can be insured for in an FDIC insured institution?”**



## **Three questions you need to always ask.**

**The three questions every “New Accounts” bank employee must ask and answer to calculate FDIC deposit insurance coverage:**

- 1) Who owns the funds?**
- 2) What ownership category is the depositor eligible to use or attempting to use?**
- 3) Do they meet the requirements of that category?**

## **Who Owns the Funds?**

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**The basis of FDIC deposit insurance starts with determining the ownership of the deposit funds.**

**“You cannot determine the amount of FDIC deposit insurance coverage without first determining who is the owner of the deposit funds!”**

## Who can own deposits?

**FDIC recognizes three groups of deposit ownership:**

“Which of these three groups does my client fit under?”

Group 1) “Am I dealing with an individual or perhaps multiple individuals who own the funds - such as a husband and wife, maybe a trust agreement?”

Group 2) “Are the funds owned by business entity (such as a Corporation, Partnership or Unincorporated entity?”

Group 3) “Are the funds owned by a governmental entity owning the funds?”

**Understanding “*Who owns the funds?*” is the essential first step to being able to determine the options (i.e. which deposit insurance category(ies)) that are available to your client.**

## The Deposit Insurance Categories

**Owner = Individual(s) or Trust**



**Category 1 -  
SINGLE**



**Category 2 -  
JOINT**



**Category 3-  
REVOCABLE  
TRUST**



**Category 4-  
IRREVOCABLE  
TRUST**



**Category 5 -  
CERTAIN  
RETIREMENT**



**Category 6 -  
EMPLOYEE  
BENEFIT  
PLAN**

**Owner = Business Organizations**



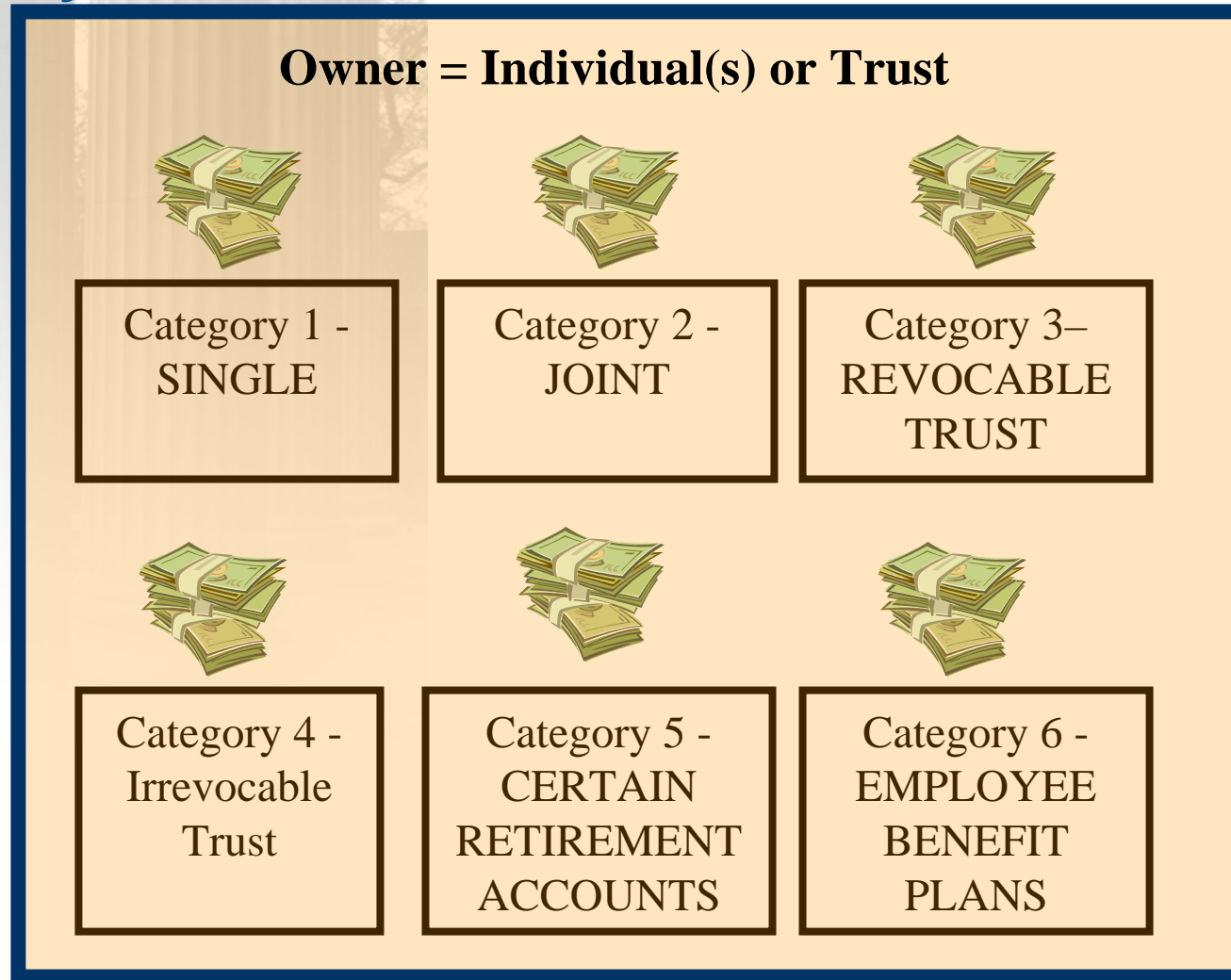
**Category 7-  
CORPORATION  
PARTNERSHIP  
UNINCORPORATED  
ASSOCIATIONS**

**Owner = Government Entity or  
Political Subdivision**



**Category 8 -  
GOVERNMENT**

## How does a depositor qualify for coverage under a category?



## Category 1 - The Single Account Category

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### *Requirements:*

The deposit is owned by a *natural person*

### *Examples of single account deposits:*

Funds owned by a *Sole Proprietorship or DBA* are insured in this category  
(not in *Category 7 – Business Organizations*)

Accounts established for a *deceased person* (i.e. Decedent's Account) are  
insured in this category (not *Category 3 - Revocable Trusts*)

## Category 1 - The Single Account Category

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### *Deposit Insurance Coverage:*

A depositor is insured for up to \$100,000 for all *Category 1 – Single Account* deposits

### *Important!*

1. **Common Misconception:** If you have a single owner and you attempt to name beneficiaries, the deposit will first be analyzed as a *Category 3 - Revocable Trusts* deposit!
2. *Category 1 – Single Account* is also the default category for depositors who do not meet the requirements of another category!

### Jane Smith's Category 1 - Single Accounts

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Account Types	Balance
Savings	\$ 25,000
CD	\$ 100,000
NOW	\$ 25,000
MMDA	\$ 25,000
<b>Total</b>	<b>\$ 175,000</b>

<b>Insurance Coverage</b>	<b>\$ 100,000</b>
<b>Uninsured Amount</b>	<b>\$ 75,000</b>



## Category 2 – The Joint Ownership Category

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### *Requirements:*

Deposits owned by *two* or more *natural persons*

- Each co-owner must be a natural person. No co-ownership with any business or trust.

Each co-owner must sign signature card (with exceptions)

Each co-owner must have equal withdrawal rights

FDIC assumes that all co-owners' shares are equal unless the deposit account records state otherwise.

# Category 2 – The Joint Ownership Category

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### *Deposit Insurance Coverage:*

If all requirements are met, then the amount of deposit insurance coverage is up to \$100,000 for each owner of all *Category 2 – Joint Account* deposits

### *Important!*

1. Deposit insurance is ***not*** increased by rearranging the names listed on accounts, substituting “and” for “or” in account titles, or using different social security numbers
2. **Common misconception:** If you have co-owned deposits and you attempt to name beneficiaries, the deposit will first be analyzed as a *Category 3 – Revocable Trust* deposit!
3. If a depositor establishes multiple joint accounts, the owner’s share in all joint accounts are added together and insured up to \$100,000.

## Example: Category 2 Joint Ownership– A Depositor has Ownership in Multiple Joint Accounts

Account	Account Title	Balance
# 1	Jane Smith and Andrew Smith	\$ 200,000
# 2	Jane Smith and Harry Jones	\$ 100,000
<b>Total</b>		<b>\$ 300,000</b>

## Example: Category 2 Joint Ownership – A Depositor has Ownership in Multiple Joint Accounts

	<u>Jane</u>	<u>Andrew</u>	<u>Harry</u>	<u>Total</u>
Account 1	\$100,000	\$100,000		\$200,000
Account 2	\$50,000		\$50,000	\$100,000
Total	\$150,000	\$100,000	\$50,000	\$300,000
Insured	\$100,000	\$100,000	\$50,000	\$250,000
Uninsured	\$50,000			\$50,000

## Category 3 - Revocable Trust Accounts

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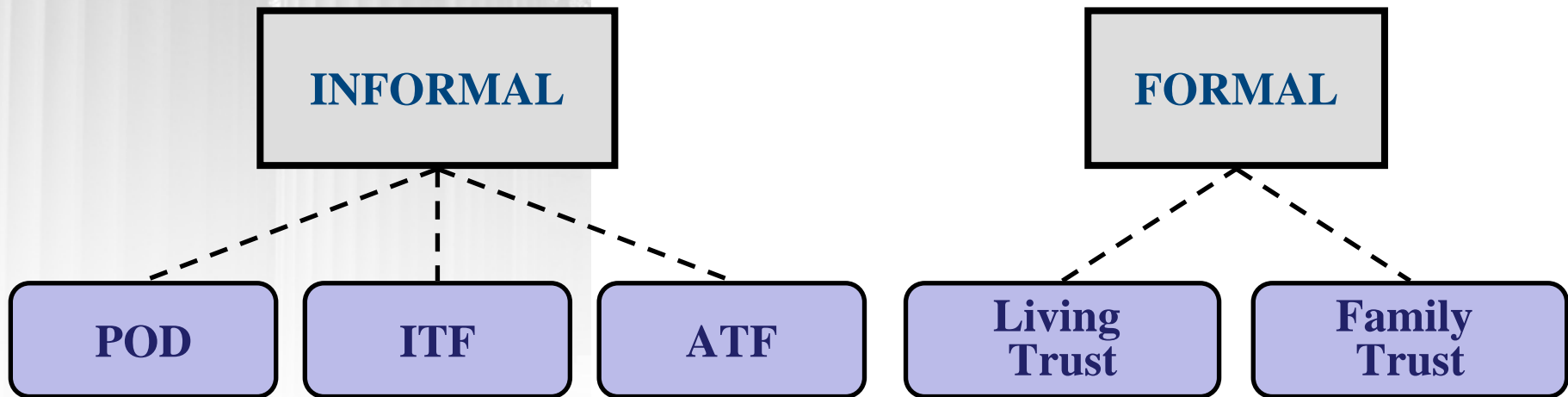
What is a revocable trust account?

- The deposit account indicates an intention that the funds will belong to one or more named beneficiaries upon the owner's death.

How is a revocable trust deposit account established?

- For an informal trust, testamentary language must be in the account's title (i.e., POD, ITF, ATF) and the beneficiaries named in the bank records.
- For a formal trust, the account title must reflect that the funds are held pursuant to a formal revocable trust.

## Category 3 – Types of Revocable Trust Deposits



**Payable-on-Death (POD) accounts or other similar terms such as In-Trust-For (ITF) or As-Trustee-For (ATF).**

**Account must be titled in the name of the formal trust.**

### Category 3 – Revocable Trust Deposits

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How is deposit insurance calculated?

*“The amount of deposit insurance is up to \$100,000 for each qualifying beneficiary that an owner lists **provided** certain conditions are met.”*

The deposit must meet the owner-beneficiary ***kinship requirement***:

A **qualifying beneficiary** must be related to the owner from one of the following five groups:

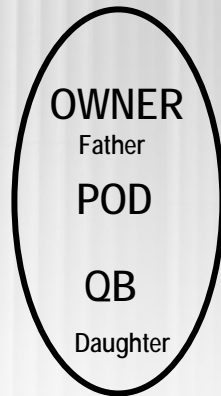
***Parent, sibling, spouse, child, grandchild.*** Adoptive and step relationships are allowed as to these five groups.

**Excluded** from the definition of a qualifying beneficiary are:

"In-laws" (mother-in-law, father-in-law, brother-in-law, etc.) aunts, uncles, nieces, nephews, cousins, former spouse, great-grandchild, grandparent, godchild, domestic partner, charitable organization (e.g. universities, religious organizations), business entities, pets, trusts.

## Applying the kinship rules to revocable trust deposits

### Example 1



#### Facts:

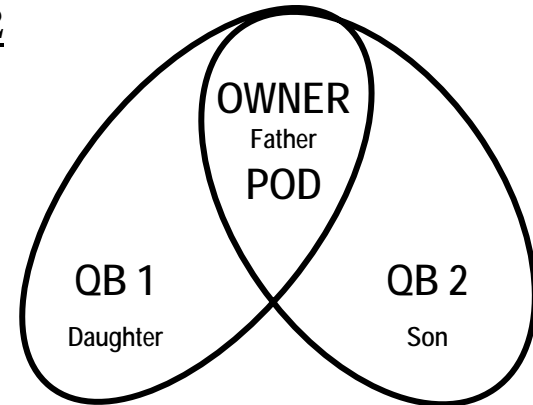
*“Father POD daughter”*

What is the maximum insured amount for this deposit?

Answer = \$100,000 not 200,000

The father’s deposit would be insured under Category 3 – Revocable Trusts

### Example 2



#### Facts:

*“Father POD daughter and son”*

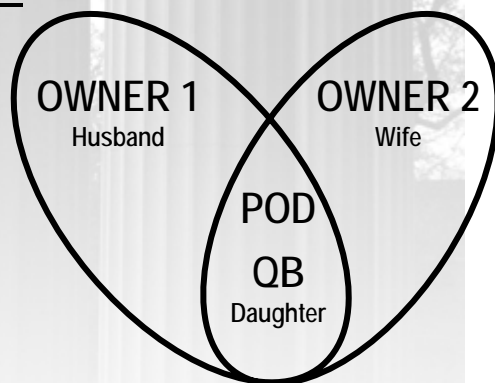
What is the maximum insured amount for this deposit?

Answer = \$200,000 not \$300,000. The funds would be insured under Category 3 – Revocable Trusts



## Applying the kinship rules to revocable trust deposits

### Example 3



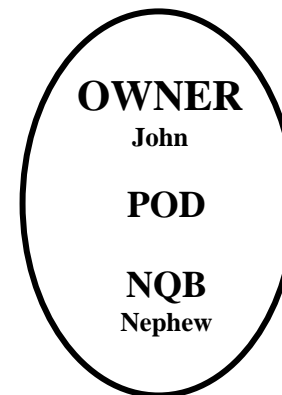
#### Facts:

*“Husband and wife POD daughter”*

What is the maximum insured amount for this deposit?

Answer = \$200,000 not 300,000.  
The funds would be insured under  
Category 3 – Revocable Trusts

### Example 4



#### Facts:

*“John POD nephew”*

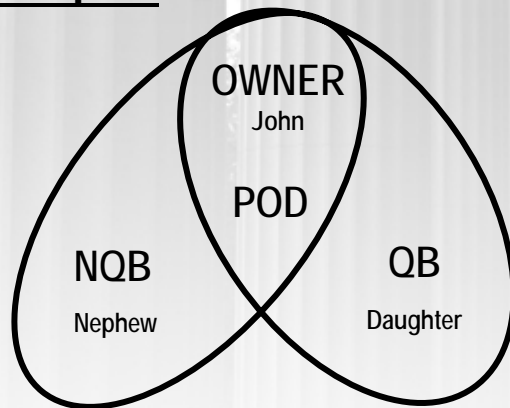
What is the maximum insured amount for this deposit?

Answer = \$100,000 not 200,000  
John’s deposit would be insured  
under Category 1 – Single  
Account Category

## Part 3 - Requirements for Eight Insurance Categories

# Applying the kinship rules to revocable trust deposits

### Example 5



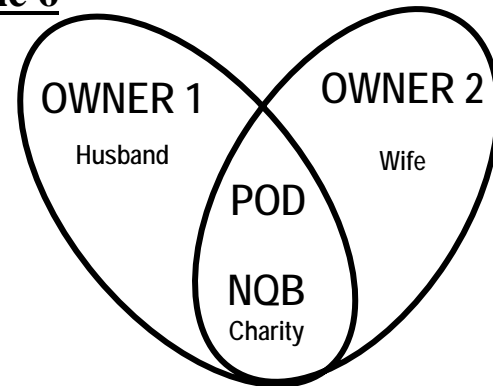
### Facts:

*“John POD nephew and daughter”*

What is the maximum insured amount for this deposit?

Answer = \$200,000 maybe! \$100,000 under Category 3 and possibly \$100,000 under John’s Category 1 - Single Account Category

### Example 6



### Facts:

*“Husband and Wife POD a charity”*

What is the maximum insured amount for this deposit?

Answer = \$200,000 maybe! \$100,000 under Husband’s Category 1 – Single Account Category and \$100,000 under Wife’s Category 1 - Single Account Category

# Questions you need answer to calculate deposit insurance coverage for formal revocable trust agreements.

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The six questions that must be answered before a depositor can determine FDIC insurance coverage for a formal revocable trust account are:

- 1. *Who are the owners of the trust?*

Commonly referred to as a Grantor, Trustor or Settlor. Forget the trustee and successor trustee designations – They are irrelevant in the determination of deposit insurance coverage !!

- 2. *Who are the primary beneficiaries upon the death of the owners?*

At the time an insured depository institution fails, the beneficiary must be entitled to his or her interest in the trust assets upon the grantor's death and that ownership interest does not depend upon the death of another trust beneficiary.

- 3. *Are the primary beneficiaries qualifying or non-qualifying beneficiaries?*

*Same as slide 23* - A qualifying beneficiary must be related to the owner from one of the following five groups:

***Parent, sibling, spouse, child, grandchild.***

Adoptive and step relationships are allowed as to these five groups.

# Questions you need answer to calculate deposit insurance coverage for formal revocable trust agreements.

(continued)

**The six questions that must be answered before a depositor can determine FDIC insurance coverage for a formal revocable trust account are:**

- 4. *Are all the owners and primary beneficiaries named in the trust living?*

The death of either an owner(s) or beneficiary(ies) can impact the calculation of deposit insurance coverage.

- 5. *What is the dollar amount or percentage interest each owner has allocated to each primary beneficiary? (This includes any specific lump sum amounts to be distributed to any beneficiary prior to the allocation by percentages.)*

The amount or percentage a beneficiary is to receive can significantly impact the calculation of deposit insurance coverage. If beneficiaries receive payments at different times under the trust this is also critical.

- 6. *Is the trust properly identified in the bank's records?*

This is simple. Ideally the name on the trust agreement is used. For *formal trust agreements only* the names of beneficiaries do not need to be in the bank records. The FDIC will contact the depositor to obtain a copy of the trust if needed in the event of the failure of the bank.

## **Category 3 – Revocable Trust Deposits**

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**For detailed information about calculating deposit insurance coverage for trusts please refer to the new FDIC publication**

**“FDIC Guide to  
Calculating Deposit Insurance Coverage  
for  
Revocable and Irrevocable Trusts”**

**found on the FDIC website  
at**

**[http://www.fdic.gov/deposit/deposits/di\\_trust\\_accounts/index.html](http://www.fdic.gov/deposit/deposits/di_trust_accounts/index.html)**

### Category 4 - Irrevocable Trust Accounts

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An irrevocable trust may be created through:

- Death of grantor of revocable living trust
- Execution or creation of an irrevocable trust agreement
- Statute or court order

Irrevocable means that the grantor (person who created trust) does not possess power to terminate or revoke trust.

An irrevocable trust deposit must be linked to a written trust agreement.

- There is no “POD” or “ITF” option.

Deposit Insurance Coverage usually no more than \$100,000 for the trust.

## Category 4 - Irrevocable Trust Accounts

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*Important!*

*“In situations where the owner(s) of a trust agreement have died and the trust is now irrevocable, the deposit insurance coverage is calculated based on Category 4 – Irrevocable Trust Account rules – not Category 3 – Revocable Trust Account rules. The rules for revocable and irrevocable trust Deposits have significant differences!”*

## Category 5 - *Certain Retirement Accounts*

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### Definition:

- Deposits must meet the requirements provided for by the statute:
  - Participant must direct the investment of their interest in the plan assets – cannot be left to the plan administrator
  - Plan cannot be a “Defined benefit plan”
    - The most common type of deposit is an Individual Retirement Account (IRA)

*Deposit Insurance Coverage is up to \$250,000*

*Please remember! “Deposit Insurance coverage for “Certain Retirement Accounts” is not increased by naming beneficiaries”*



# Category 6 - Employee Benefit Plan Accounts

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### Definition:

- Defined contribution plans, including profit-sharing plans and 401(k) plans that do not qualify as “self-directed” plans
- All Defined benefit plans are insured under this category only

### Deposit Insurance Coverage:

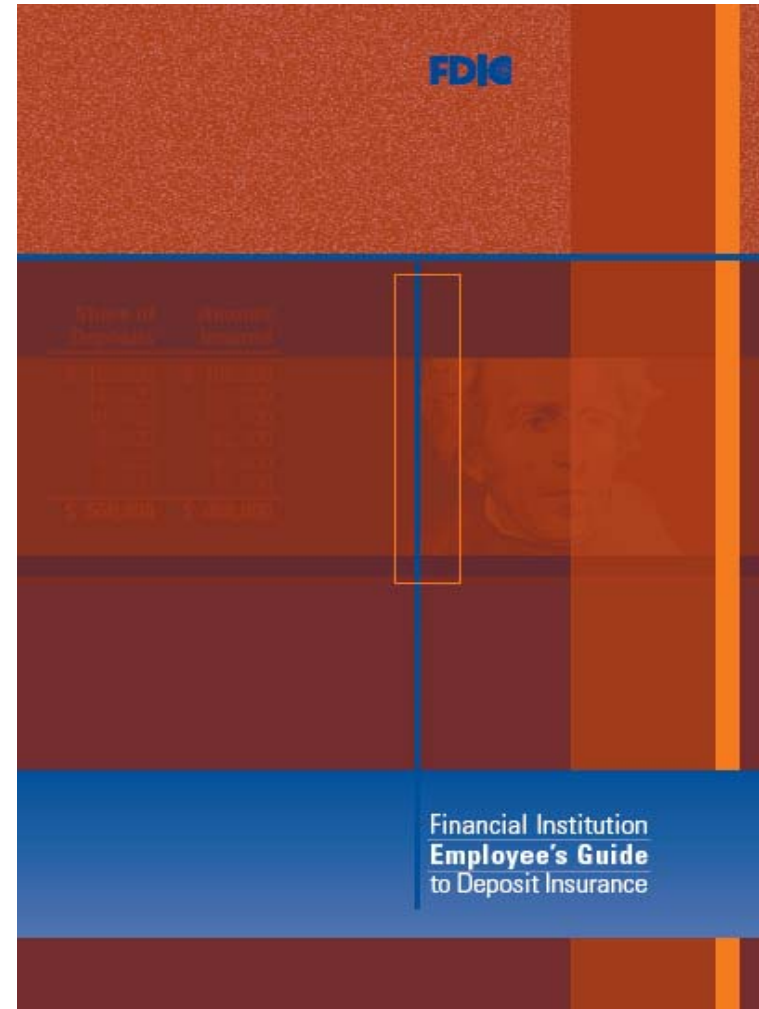
- Insurance coverage is up to \$100,000 for each participant’s non-contingent interest
- Breakeven formula is \$100,000 divided by the participant with the largest percentage non-contingent ownership interest under the plan

## Category 6 - Employee Benefit Plan Accounts

For detailed examples of Employee Benefit Plan “pass-through” coverage:

See Examples 27 and 28  
in

**“FDIC’s Financial Institution Employee’s  
Guide to Deposit Insurance”**



# Category 7 - Business/Organization Accounts

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### Definition:

1. Based on state law - must be a legally created:
  - Corporations (includes Subchapter S, LLCs, and PCs)
  - Partnerships
  - Unincorporated Associations
2. The business entity must be engaged in an independent activity

### Deposit Insurance coverage:

- Up to \$100,000 per legal entity – period!
  - The existence of multiple signers does not increase coverage
  - A separate business purpose for funds owned by the same legal entity does not increase coverage.

# Category 8 - Government/Public Unit Accounts

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### What is a Governmental account?

- Each official custodian of funds of any state of the United States, or any county, municipality, or political subdivision

### What is an “Official Custodian”?

- An "official custodian" must have plenary authority, including control, over funds owned by the public unit which the custodian is appointed or elected to serve.
  - Control of public funds includes possession, as well as the authority to establish accounts for such funds in insured depository institutions and to make deposits, withdrawals, and disbursements of such funds.

### Deposit Insurance Coverage:

- Insurance coverage provided to each “**official custodian**” of each public unit or political subdivision:
  - Deposit in a bank in same state:
    - \$100,000 for all time and savings deposits
    - \$100,000 for all demand deposits
  - Deposit in a bank in different state:
    - \$100,000 for all deposits

## **Category 8 - Government/Public Unit Accounts**

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**Deposit Insurance for Accounts Held by  
Government Depositors**

**[www.fdic.gov/deposit/deposits/FactSheet](http://www.fdic.gov/deposit/deposits/FactSheet)**

# Eligible Ownership Categories

**Owner = Individual(s) or Trust**



**Category 1 -  
SINGLE**



**Category 2 -  
JOINT**



**Category 3-  
REVOCABLE  
TRUST**



**Category 4-  
IRREVOCABLE  
TRUST**



**Category 5 -  
CERTAIN  
RETIREMENT**



**Category 6 -  
EMPLOYEE  
BENEFIT  
PLAN**

**Owner = Business Organizations**



**Category 7-  
CORPORATION  
PARTNERSHIP  
UNINCORPORATED  
ASSOCIATIONS**

**Owner = Government Entity or  
Political Subdivision**



**Category 8 -  
GOVERNMENT**

# Maximum Deposit Insurance Coverage

	<b>Single Accounts</b>	<b><i>Certain</i> Retirement Accounts</b>	<b>Joint Accounts</b>	<b>Revocable Trust Accounts*</b>	<b>Total Coverage</b>
Husband (Individually)	\$100,000	\$250,000			\$ 350,000
Wife (Individually)	\$100,000	\$250,000			\$ 350,000
Together			\$200,000	\$600,000*	\$ 800,000
<b>Total</b>	<b>\$200,000</b>	<b>\$500,000</b>	<b>\$200,000</b>	<b>\$600,000*</b>	<b>\$1,500,000</b>

\* Assumes that husband and wife have named 3 qualifying beneficiaries in their revocable trust account and that the beneficiaries have equal beneficiary interests

## **Additional Concepts & Fundamentals**

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Fiduciary Accounts

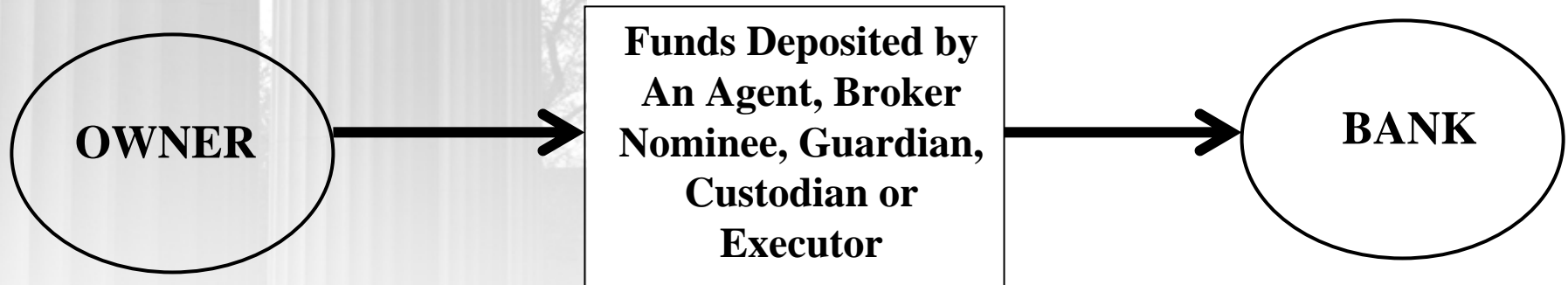
Death of an Account Owner or Beneficiary

Bank Merger

Bank Failure



## Fiduciary Accounts



**“Types of fiduciary accounts include: Escrow, Broker, Attorney Trust (IOLTA), Title company (P&I,T&I), Uniform Transfer to Minors Act “UTMA”**

**Requirements for “pass-through” insurance coverage:**

1. Bank’s account records must disclose the fiduciary relationship in the account title and
2. Either the bank’s account records or fiduciary’s records must disclose owner’s identity and interest in the deposit

***“If the requirements are met, then the deposit insurance coverage is the same as if the depositor directly deposited the funds at the bank”***

## Death of an Account Owner

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Death of an account owner will in most cases reduce the amount of insurance coverage

However, FDIC provides a six month grace period, during which the account will be insured as if the account owner had not died

## Beneficiary's Death

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There is no six-month grace period for beneficiaries

Deposit Insurance coverage is immediately reduced for an informal revocable trust account

## Insurance Coverage after a Bank Merger

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Separate insurance for six months

Separate insurance for CDs issued by the former bank until maturity

## Insurance Coverage after a Bank Failure

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FDIC pays depositors “as soon as possible”

- FDIC’s goal is to make deposit insurance payments within two business days of the failure of the insured institution
- FDIC pays 100% on the dollar for all insured deposits
- Depositors with brokered deposits will take longer to recover their insured funds
- Depositors with uninsured deposits may recover a portion of their uninsured funds

## FDIC Contact Information

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Call the FDIC toll-free **1-877-275-3342**  
Information specialists are available from  
8 AM until 8 PM Eastern Time  
Monday through Friday

Hearing impaired: 1-800-925-4618

Send questions by e-mail using the FDIC's online Customer Assistance Form at:  
**[www2.fdic.gov/starsmail](http://www2.fdic.gov/starsmail)**

## Quick Links for Bankers

### Highlights



#### Call and Thrift Financial Report

June 30, 2007  
Filing information for Call Reports are now available. [read more...](#)



#### FDIC Supervisory Insights

June 21, 2007  
The Summer 2007 version reports how banks can mitigate risks associated with third-party arrangements. [read more...](#)

### Top Picks

- [Institution Directory](#)
- [Call & Thrift Financial Reports](#)
- [FDIC Law, Regulations & Related Acts](#)
- [Uniform Bank Performance Reports](#)
- [Summary of Deposits](#)

### Resources

- [FDICconnect](#)
- [Office of the Ombudsman](#)
- [Director's Corner](#)
- [Deposit Insurance Products Order Form](#)
- [Ordering & Using FDIC Signs & Logos](#)
- [Reprintable FDIC Brochures](#)
- [Forms](#)
- [Publications & Documents](#)
- [Lessons Learned from Hurricane Katrina: Preparing Your Institution for a Catastrophic Event](#)
- [Appeals of Material Supervisory Determinations: Guidelines & Decisions](#)
- [Bank Examinations](#)
- [Minority Depository Institutions Program](#)

### Research & Analysis

- [FDIC Quarterly](#)

### Deposit Insurance

- [Electronic Deposit Insurance Estimator \(EDIE\) - Banker's Version](#)
- [Financial Institution Employee's Guide to Deposit Insurance](#)
- [Reform of Deposit Insurance - Preliminary Estimated One-time Assessment Credit Report](#)
- [Assessment Rate Calculator](#)
- [Your Insured Deposits](#)
- [Videos on Deposit Insurance Coverage](#)
- [Insuring Your Deposits](#)
- [Deposit Insurance Assessment Appeals: Guidelines & Decisions](#)
- [Deposit Reporting Self Assessment Guides](#)

### Policy & Legislation

- [FDIC Law, Regulations & Related Acts](#)
- [Financial Institution Letters](#)
- [FDIC Federal Register Citations](#)

# Questions and Answers